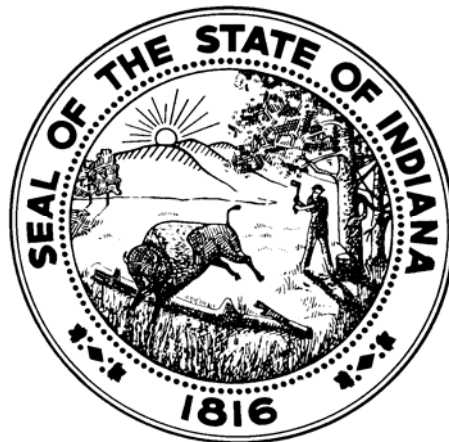


**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

SPECIAL EXAMINATION
OF

2002 REASSESSMENT CONTRACTS AND
SUBSEQUENT TAX BILLING, COLLECTION
AND DISTRIBUTION PROCESSES

BROWN COUNTY, INDIANA



FILED
07/23/2007

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

June 28, 2007

Ladies and Gentlemen:

Presented herewith is the report on our special examination of the property tax assessment, collection and distribution process in Brown County.

The Indiana Code and the State Examiner prescribe a minimum system of procedures and record-keeping for property tax assessment, collection and distribution in Counties, which is detailed in Indiana Code 6-1.1, *the Accounting and Uniform Compliance Guidelines Manual for County Auditors*, and *the Accounting and Uniform Compliance Guidelines Manual for County Treasurers*. The purpose of our examination was to determine the extent of the County's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our examination revealed lengthy delays in completing the 2002 reassessment which required adjustment to the procedures and timelines for property tax assessment, collection and distribution process. Procedures and software programs were changed to accommodate new timelines and the use of provisional tax bills. During this time property taxes were collected in advance from some taxpayers. Changes to real property assessments, property transfers, property splits and administrative combinations along with the disruption in the timeline caused errors when applying the taxes that had been collected in advance. Correcting these problems caused more delays which compounded the problems. This matter will be forwarded to the Brown County Prosecuting Attorney and the State of Indiana Attorney General.

Copies of this report are being forwarded to Governor Mitch Daniels, the State Attorney General, the Inspector General, certain state legislators and various other interested parties. A copy is available for public inspection in our office.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce A. Hartman".

Bruce A. Hartman, CPA
State Examiner

2002 REASSESSMENT CONTRACTS AND
SUBSEQUENT TAX BILLING, COLLECTION
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BACKGROUND

Indiana Code 6-1.1-4-4 required the County to complete a property reassessment as of March 1, 2002, for use in establishing property tax levies and rates for taxes payable in 2003. The township trustees are the officials responsible for property assessment. In November 1999, the trustees contracted with Milton Johnson, DBA Johnson and Associates (later reorganized as Johnson and Associates, LLC) to do the reassessment. In December 2002, after several contract addendums, and with the reassessment still not completed, disputes arose among the trustees, county officials, and Johnson and Associates. After a year of legal proceedings, an independent review of Johnson and Associates' contract performance, and no additional progress on the reassessment, the trustees entered into a new contract on December 10, 2003, with Nexus Group, Inc. (Nexus) to complete a new reassessment. As the work progressed, numerous errors, discrepancies, and inequities in the work came to light. Addressing these items caused further delays.

The lengthy delays in completing the reassessment caused disruptions in the tax billing, collection, and settlement cycle, disrupting procedures in the offices of the County Auditor and the County Treasurer. Software programs had to be adjusted to handle the changed timelines and items such as provisional bills and payments received in advance of billings. Property changes that were entered in the computer system (e.g., transfers, splits, administrative combinations, and certificates of error) combined with the disrupted timeline caused problems when advance payments were applied. Correcting these problems caused more delays which compounded the problems.

Apparently, as a result of the delays mentioned above, and not receiving an assessed value in order to establish a tax rate for the 2002 pay 2003 tax billing cycle, a provisional billing was mailed to taxpayers in late summer of 2003, with a due date of September 19, 2003. Additionally, a letter requesting voluntary payments was sent in the spring of 2004. The assessed value and tax rates for the 2002 pay 2003 tax billing cycle were finally completed and a one time tax bill for that cycle was finally mailed to taxpayers on April 15, 2005, with a due date of May 10, 2005. Settlement for these taxes collected was accomplished on July 25, 2005. The normal time-line for the 2002 pay 2003 tax billing cycle would have had a spring due date of May 10, 2003, with settlement accomplished on or before June 30, 2003, and a fall due date of November 10, 2003, with settlement accomplished on or before December 31, 2003.

The 2003 pay 2004 tax billing cycle's normal time-line would have had a spring due date of May 10, 2004, with a settlement date of on or before June 30, 2004. The fall due date would have been November 10, 2004, with the final settlement on or before December 31, 2004. The actual time-line for the 2003 pay 2004 tax billing cycle was a one time tax bill mailed on November 29, 2005, with a due date of December 16, 2005. The actual settlement was completed on April 26, 2006.

The 2004 pay 2005 tax billing cycle's normal time-line would have had a spring due date of May 10, 2005, with a settlement date of on or before June 30, 2005. The fall due date would have been November 10, 2005, with the final settlement on or before December 31, 2005. The actual time-line for the 2004 pay 2005 tax billing cycle was a one time tax bill mailed on June 28, 2006, with a due date of July 14, 2006. The actual settlement was completed on August 25, 2006.

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The 2005 pay 2006 tax billing cycle's normal time-line would have had a spring due date of May 10, 2006, with a settlement date of on or before June 30, 2006. The fall due date would have been November 10, 2006, with the final settlement on or before December 31, 2006. The actual time line for the 2005 pay 2006 tax billing cycle was a one time tax bill mailed on May 25, 2007, with a due date of June 11, 2007. As of June 26, 2007, the actual settlement has not been completed.

Problems and issues relating to the County's reassessment and property tax cycle are described in more detail in the following examination results and comments.

WITHHOLDING OF STATE PROPERTY TAX REPLACEMENT CREDIT PAYMENTS

On March 30, 2006, the Department of Local Government Finance (DLGF) notified Brown County that the County had not complied with the requirements of Indiana Code 6-1.1-21-4(e) to forward certain assessor and auditor data to the DLGF. The DLGF in response to the noncompliance began withholding Brown County's share of the State Property Tax Replacement Credit payments due from the Auditor of State beginning with the April 2006 distribution. As of June 26, 2007, Brown County is still not in compliance with these requirements and is still not receiving its share of the State Property Tax Replacement Credit.

OVERDRAWN FUND BALANCES

Fund balances were overdrawn as of December 31, 2005, and December 31, 2006, as shown below:

Fund	Fund Balance 12-31-05	Fund Balance 12-31-06
General	\$ (6,133,126)	\$ (2,891,408)
Property Reassessment	(85,626)	-
Community Corrections	(3,969)	-
Health	(448,009)	(162,046)
Brown County Tobacco Free Partners	(3,171)	(1,303)
Jail Lease	(465,002)	-
Payroll	-	(7,434)
IMPACT Grant	-	(263)
Family Access Grant	(7,237)	(39,029)
Total overdrawn fund balances	<u>\$ (7,146,140)</u>	<u>\$ (3,101,483)</u>

During 2005, the overdrawn fund balances were so excessive that operation was possible only through the use of undistributed taxes on hand. 2006 operations for funds with negative fund balances were funded primarily from undistributed taxes and other county funds.

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As noted above, the County's General Fund has operated with an overdrawn fund balance for many years due to the lack of timely tax settlements and little, if any, spending controls. The General Fund balances were as follows:

Date	Fund Balance
12-31-03	\$ (295,144)
12-31-04	(4,404,226)
12-31-05	(6,133,126)
12-31-06	(2,891,408) *

*Although some improvement is indicated as of 12-31-06, this was primarily due to a temporary loan of \$1,660,000 from other funds, which has not been repaid nor has its repayment been locally appropriated in the 2007 General Fund budget. If the temporary loan had been repaid from the General Fund by December 31, 2006, as required by statute, the resulting General Fund balance would have been (\$4,551,408).

The County's General Fund has reached a point that recovery may be difficult without alternative revenue sources.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

BUDGETS

Reassessment difficulties identified in the background information comment above have caused delays in the billing of property taxes since 2003. These difficulties have caused the entire certification of valuations, tax billings and the budget process to be severely delayed. Budgets are approved annually on the local level and are spent long before an actual budget is approved by the Department of Local Government Finance (DLGF). Budget information for the County General Fund is as follows:

Budget Year	Locally Approved Budget	Actual Disbursements	Local Budget to Actual Variance	Date of DLGF Budget Approval	DLGF Approved Budget	DLGF Approved Budget to Actual Variance
2003	\$ 4,065,342	\$ 4,292,492	\$ (227,150)	01-24-05	\$ 4,065,342	\$ (227,150)
2004	4,518,181	5,029,905	(511,724)	11-14-05	4,518,181	(511,724)
2005	4,869,427	4,956,515	(87,088)	06-01-06	3,941,279	(1,015,236)
2006	4,918,748	4,777,253	141,495	Denied 03-26-07	-	(4,777,253)
2007	5,062,167	*		*	*	*

*Assessments have not been Certified, Rates have not been established and budgets have not been approved by the State DLGF.

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Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Currently the State of Indiana does not have any statutory authority to prevent local units of government from operating without an approved budget.

REQUIREMENTS FOR ISSUANCE OF WARRANT OR CHECK BY FISCAL OFFICER

The Brown County Auditor issued warrants in payment of claims for which proper appropriation and cash funds were not available.

Indiana Code 5-11-10-1.6 states in part: "... (d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements: (1) processed in accordance with this section; and (2) for which funds are appropriated and available."

Indiana Code 36-2-6-4 states in part: "... (c) The county executive may allow a claim if the claim: (1) complies with Indiana Code 5-11-10-1.6; . . . (d) A county auditor or member of a county executive who violates this section commits a Class C infraction. (e) A county auditor who violates this section is liable on his official bond for twice the amount of the illegally drawn warrant, which may be recovered for the benefit of the county by a taxpayer of the county . . ."

INTEREST ON UNDISTRIBUTED TAX COLLECTIONS

Interest earned on tax collections was not distributed to the County's taxing units but receipted to the County's General Fund. Beginning with the day following the date for distribution through the actual distribution date interest earned on tax collections totaled \$358,255.80, \$194,483.47, and \$63,992.63, for the 2002-2003, 2003-2004, and 2004-2005 settlements, respectively.

Interest due individual taxing units is as follows:

Taxing Unit	2002-2003 Settlement	2003-2004 Settlement	2004-2005 Settlement	Total
Town of Nashville	\$ 6,828.39	\$ 3,926.63	\$ 1,984.42	\$ 12,739.44
Jackson Township Trustee	1,450.51	619.57	300.76	2,370.84
Hamblen Township Fire Protection	639.85	577.18	223.48	1,440.51
Hamblen Township	1,296.71	644.27	247.82	2,188.80
Van Buren Township	651.63	318.21	164.38	1,134.22
Lake Lemon Conservancy District	987.08	195.66	115.43	1,298.17
State funds	7,738.37	2,264.76	849.58	10,852.71
Brown County Solid Waste	3,824.84	1,609.64	808.47	6,242.95

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Taxing Unit	2002-2003 Settlement	2003-2004 Settlement	2004-2005 Settlement	Total
Brown County Public Library	33,834.13	4,208.68	1,049.30	39,092.11
Brown County School Corporation	175,608.53	119,090.82	29,578.00	324,277.35
County funds	110,599.99	56,246.65	22,863.27	189,709.91
Washington Township	2,512.13	1,229.96	449.99	4,192.08
Cordry Sweetwater Conservancy District	12,283.64	3,551.44	5,357.73	21,192.81
Totals	<u>\$ 358,255.80</u>	<u>\$ 194,483.47</u>	<u>\$ 63,992.63</u>	<u>\$ 616,731.90</u>

Because settlements were not timely, some taxing units had to obtain loans to fund operations, and incurred sizable interest costs.

Indiana Code 6-1.1-27-1(b) states in part: "If any county treasurer or auditor refuses, neglects, or fails to distribute tax money due to a tax unit on or before the fifty-first day immediately following each property tax due date . . . the county treasurer and auditor shall pay to the taxing unit from the county general fund interest on the taxing unit's undistributed tax money if the county treasurer and auditor invest undistributed tax money in an interest bearing investment. The amount of interest to be paid equals the taxing unit's proportionate share of the actual amount of interest which is received from investments of the undistributed tax money from the fifty-second day immediately following the property tax due date . . ."

SURPLUS TAX

County Form 65-STF, Surplus Tax Fund Ledger, is designed to be prepared by the County Treasurer and maintained and reconciled by the County Auditor. This form has not been properly prepared, maintained, or reconciled to the Surplus Tax Fund since 2002. Based on amounts provided by the County Treasurer on the anticipated rollover of overpayments and surplus taxes to be applied to the 2005 payable 2006 tax records, the Surplus Tax Fund will have an unidentified balance of \$3,289.16 once the rollover is complete.

Indiana Code 6-1.1-26-6(b) states: "Not less frequently than at the time of each semiannual settlement, the county treasurer shall prepare duplicate schedules of all excess payments received. The schedules shall contain the name on the tax duplicate, the amount of excess paid, and the taxing district. The county treasurer shall deliver one (1) copy of the schedule to the county auditor. Within fifteen (15) days after receiving the schedule, the county auditor shall review the schedule, and if the county auditor concurs with the schedule, the county auditor shall notify the county treasurer that the notice required under subsection (d) may be sent. The county auditor shall preserve the schedule, and if a refund is subsequently made, he shall note on the schedule and notify the county treasurer of the date and amount of the refund. In addition, when money is transferred from the surplus tax fund to the county general fund under subsection (c), the county auditor shall note the date and amount of the transfer on the schedule."

Surplus tax shall be reported by the treasurer on the County Treasurer's Certificate of Tax Collections, County Form No. 49TC. The county treasurer is also required to file Ledger Form No. 65-STF, Surplus Tax Fund Ledger, listing in detail by taxing district each item of surplus tax collected, the total of which shall be receipted to the "Surplus Tax Fund." (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 9)

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At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

TAX REFUNDS

During the period June 7, 2004 through December 31, 2006, tax refunds were disbursed from the County General Fund totaling \$11,604.87. A review of all tax refund claims during this period indicates claims totaling \$7,800.03 were not tax refunds but surplus tax collections. Of the remaining amount only one refund paid from the General Fund totaling \$554.94 was correctly disbursed and adequately documented; however, the General Fund has not been reimbursed as required at settlement time. Proper documentation was not presented for audit to support three claims paid from the General Fund as tax refunds totaling \$3,249.90. Due to the lack of documentation we were unable to determine if these payments were proper tax refunds based on statutory requirements.

Indiana Code 6-1.1-26-1 states: "A person, or his heirs, personal representative, or successors, may file a claim for the refund of all or a portion of a tax installment which he has paid. However, the claim must be: (1) filed with the auditor of the county in which the taxes were originally paid; (2) filed within three (3) years after the taxes were first due; (3) filed on the form prescribed by the state board of accounts and approved by the department of local government finance; and (4) based upon one (1) of the following grounds: (A) Taxes on the same property have been assessed and paid more than once for the same year. (B) The taxes, as a matter of law, were illegal. (C) There was a mathematical error either in the computation of the assessment upon which the taxes were based or in the computation of the taxes."

Indiana Code 6-1.1-26-5(b) states: "In the June or December settlement and apportionment of taxes, or both the June and December settlement and apportionment of taxes, immediately following a refund made under this section the county auditor shall deduct the amount refunded from the gross tax collections of the taxing units for which the refunded taxes were originally paid and shall pay the amount so deducted into the general fund of the county. However, the county auditor shall make the deductions and payments required by this subsection not later than the December settlement and apportionment."

ASSESSMENT OF AND CHANGES TO THE VALUATION OF REAL PROPERTY

In 1999, Brown County began a general reassessment of all real property in the County as required by Indiana Code 6-1.1-4-4. As noted in the "Background" comment, the County contracted with outside reappraisal companies to perform the reassessment and some of the subsequent yearly property valuations. The following conditions were noted with respect to real property valuations:

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1. Changes to Property Valuations Without Adequate Documentation

A. Petition For Correction of Error, Form 133 - Information presented for audit provides numerous instances where County Form 133 was used inappropriately or was not completed properly. These forms were used in many instances for changes not meeting the criteria stated below in Indiana Code 6-1.1-15-12. Additionally, the petitioner should be completing sections I, II and III of this form. In virtually all of the Form 133s reviewed, it did not appear that the petitioner completed the required sections nor did they sign the form. Many did not contain the appropriate number of local official's signatures required for approval of the correction. A couple of forms did have two signatures, but the township assessor who signed the form was not from the same township as the petitioner. As a result, changes to assessed values and/or refunds were made inappropriately and without the proper approvals.

Indiana Code 6-1.1-15-12(a) states in part: "Subject to the limitations contained in subsections (c) and (d), a county auditor shall correct errors which are discovered in the tax duplicate for any one (1) or more of the following reasons: . . . (6) The taxes, as a matter of law, were illegal. (7) There was a mathematical error in computing an assessment. (8) Through an error or omission by any state or county officer the taxpayer was not given credit for an exemption or deduction permitted by law."

Indiana Code 6-1.1-15-12(d) states in part: "If the tax is not based on an assessment made or determined by the state board of tax commissioners (before the board was abolished) or the department of local government finance, the county auditor shall correct an error described under subsection (a)(6), (a)(7), or (a)(8) only if the correction is first approved by at least two (2) of the following officials: (1) The township assessor. (2) The county auditor. (3) The county assessor."

Unit officials should design and implement procedures to ensure that changes requiring a Form 133 should not be allowed unless a properly completed and signed form is presented.

B. Other Changes in Values – Information presented for audit also indicates that the original assessed values for parcels were changed at some point with no supporting documentation or approval. Recently, values on certain parcels have been reviewed and have been found to be in error. There has been no comprehensive review of valuations to determine if there are other parcels that have been changed in error or without adequate supporting documentation. As a result, it does not appear that effective control procedures have been put in place to ensure that property is being valued in a uniform and equal manner.

Indiana Code 6-1.1-37-2 states: "A county or township official, member of a county or state board, or employee of such an official or board who: (1) knowingly assesses any property at more or less than what he believes is the proper assessed value of the property; (2) knowingly fails to perform any of the duties imposed on him under the general assessment provisions of this article; or (3) recklessly violates any of the other general assessment provisions of this article; commits a Class A misdemeanor."

Indiana Code 6-1.1-4-26 states: "The department of local government finance may adopt or promulgate regulations, appraisal manuals, rules, bulletins, directives, and forms for the assessment and reassessment of real property."

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Indiana Code 6-1.1-4-30 also states: "In making any assessment or reassessment of real property in the interim between general reassessments, the rules, regulations, and standards for assessment are the same as those used in the preceding general reassessment."

Unit officials should follow the rules, regulations, and standards for assessment that are in effect. Additionally, control procedures should be implemented to ensure that property is originally valued or subsequently valued correctly. Controls may include procedures for the retention of supporting documentation for any changes to valuations, and a method to document approval of these changes by an appropriate official should be established.

2. Inconsistencies in Assessed Valuations

A. Land and Homesite Valuations – When the 2002 reassessment was completed, a substantial number of parcels that had previously been assessed as agricultural land (for many years) were reassessed as residential. This resulted in a significant increase in the assessed value of the individual parcels. During the subsequent time period, many of these were changed back to the agricultural rate as a result of taxpayer inquiry or appeal, the use of Form 133 noted above, or changed without documentation. Parcels similar to ones that were changed back to the agricultural rate were reviewed to determine their valuation base rate. It was found that similar parcels in close proximity to the subject parcels were not assessed uniformly. Additional instances were found where the property record card showed residential; however, the base rate used was not the residential rate.

It was also noted that some parcels were valued with a homesite, when there appeared to be no dwelling or utilities on the property. It was also noted that some parcels were valued with no homesite, and/or no value for a structure, when there was a dwelling on the property.

There were also inconsistencies found with respect to whether parcels were valued as buildable or unbuildable. In one instance, parcels on either side of the unbuildable parcel were valued as buildable (one parcel did have a house). In other instances, it was unclear whether all of the land order book pages for some neighborhoods were properly approved.

As a result, some parcels have not been assessed in a uniform and equal manner.

Indiana Code 6-1.1-2-2 states in part: "All tangible property which is subject to assessment shall be assessed on a just valuation basis and in a uniform and equal manner."

Officials should develop and implement procedures to more closely monitor property valuations and changes to property valuations to ensure that property is assessed on a just valuation basis and in a uniform and equal manner.

B. Administratively Combined Parcels – When parcels were originally reassessed, each parcel was assessed as if it was a homesite (causing an increase in the land valuation for the first acre of property). For taxpayers with several contiguous parcels (some without dwellings) this caused a further increase in their assessed valuations. To try to limit the effect of the reassessment on the taxpayer, County officials would then administratively combine parcels for taxing purposes as allowed by Indiana Code 6-1.1-5-16. The combined parcels were then valued with only one

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homesite assessment. These changes were not supported by a change to the deed or legal description of the property. These consolidations have caused additional problems with the tax assessment, billing and collection process. The additional problems include: parcels may have been billed twice (as its own parcel and within the combined parcel); unpaid assessments showing on individual parcels that have been administratively combined (when the combined parcel taxes have been paid); and parcel numbers dropping from the billing system, even though there may have been surplus tax to be applied.

Indiana Code 6-1.1-5-16 states: "If an owner of existing contiguous parcels makes a written request that includes a legal description of the existing contiguous parcels sufficient for the assessing official to identify each parcel and the area of all contiguous parcels, the assessing official shall consolidate more than one (1) existing contiguous parcel into a single parcel to the extent that the existing contiguous parcels are in a single taxing district and the same section. For existing contiguous parcels in more than one (1) taxing district or one (1) section, the assessing official shall, upon written request by the owner, consolidate the existing contiguous parcels in each taxing district and each section into a single parcel. An assessing official shall consolidate more than one (1) existing contiguous parcel into a single parcel if the assessing official has knowledge that an improvement to the real property is located on or otherwise significantly affects the parcels."

Unit officials should develop new procedures or modify existing procedures to properly account for these changes within the tax assessment, billing and collection process.

3. Results of Appeals/Appeals Process

Record Retention – Information presented for audit indicates that not all of the appeal results (formal and/or informal) were documented or subsequently acted upon as necessary. There have been several instances where a final determination or agreement required a change of assessment and this change has not been completed. This has caused properties to be billed based on incorrect valuations.

Unit officials should develop procedures to ensure that board action is documented and that any required action is completed within the required time period.

4. Department of Local Government Finance

A. General Supervision and Oversight – With respect to the general supervision of assessing officials, the Department of Local Government Finance (DLGF) has several duties and authorities. Indiana Code 6-1.1-35-1 states: "The department of local government finance shall: (1) interpret the property tax laws of this state; (2) instruct property tax officials about their taxation and assessment duties and ensure that the county assessors, township assessors, and assessing officials are in compliance with section 1.1 of the chapter; (3) see that all property assessments are made in the manner provided by law; and (4) develop and maintain a manual for all assessing officials and county assessors concerning: (A) assessment duties and responsibilities of the various state and local officials; (B) assessment procedures and time limits for the completion of assessment duties; (C) changes in state assessment laws; and (D) other matters relevant to the assessment duties of assessing officials, county assessors, and other county officials." The

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department has done this through the development and issuance of the 2002 Real Property Assessment Manual and various regulations, rules, bulletins and directives. Failure of assessing officials to comply with the above items could result in assessments that are not accurate.

Unit officials and employees have a responsibility to perform duties in a manner in compliance with all applicable manuals, regulations, rules, bulletins and directives.

B. Review of Assessments – Indiana Code 6-1.1-4-31(a) states in part: "The department of local government finance shall periodically check the conduct of: (1) a general reassessment of property; (2) work required to be performed by local officials under 50 IAC21; and (3) other property assessment activities in the county, as determined by the department." The DLGF was contacted by the county in 2003 to review the work done by the original reappraisal contractor (Johnson and Associates). Based upon the results of the DLGF review and an independent review, the county eventually contracted with a new reappraisal firm (Nexus Group, Inc.) to do the 2002 reassessment and subsequent valuations. During the period of time subsequent to the 2003 review, the DLGF has had contact with the assessing officials, but has not done or been asked to do an in depth review of the values currently being assessed.

Due to the lack of uniformity and equality in the assessed values as noted above, unit officials should consult with the DLGF to determine the proper course of action. Items to consider may include, but are not limited to, a comprehensive review of individual assessments, an examination of current protocols for changing assessments and documenting such changes, a review of computer related issues (logical security, compensating manual procedures, etc.), and the interface between the tax assessment process and the tax billing and collection systems.

Indiana Code 6-1.1-4-9 states in part: ". . . In order to maintain a just and equitable valuation of real property, the department of local government finance may adopt a resolution declaring its belief that it is necessary to reassess all or a portion of the real property located within this state . . ."

INTERNAL CONTROL PROCEDURES

Tax Billing and Collection System:

The County has not established internal control procedures to ensure that actions taken on the computerized property tax system in relation to advance payment of taxes are performed in the proper sequence. For example, the County Auditor is able to delete a property key number after an advance payment has been received for that key number. The tax payments made in advance were posted to the applicable key number and then treated in the settlement in the same way as surplus tax. Because of the sheer volume of these payments, it was not practical to handle them in the same way that surplus tax is handled using Form 65 STF. Instead, the software vendor provided a program to rollover the advance payments in surplus tax and to apply them to the succeeding tax year. Before the new tax bills could be entered and the payments applied, the County Auditor made adjustments to the property records that included the deletion of some property key numbers. The result was payments made and posted that had no place to rollover to because the key number had been deleted. Procedures to ensure the proper sequence of actions could include:

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- Manual system status checklists that are referred to before taking a particular action.
- A list of actions that require prior consultation with other offices or the software vendor.
- Screen edits written into the software that warn when an action may be out of sequence.
- Software code that will not allow an action out of sequence.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

Concerns relating to the data processing procedures were previously communicated to Brown County Officials in a management letter dated October 5, 2006. As of June 28, 2007, those same concerns still exist.

2002 REASSESSMENT COSTS

In November 1999, the Brown County Trustees entered into a contract with Johnson and Associates to perform the 2002 general reassessment of all properties located in Brown County, Indiana. The contract amounts, addendums and subsequent payments are listed below:

Description of Contract with Johnson and Associates	Contract/ Addendum Amount	Amount Paid
Original contract:		
2002 General reassessment	\$245,807.00	\$ 245,807.00
Additional \$8.50 per personal property mobile home	8,215.27	8,215.27
Addendum No. 1- extend reassessment to 07-01-02	60,000.00	60,000.00
Addendum No. 2 - add new construction for 2002	30,000.00	30,000.00
Addendum No. 3 - extend reassessment to 07-01-03	60,000.00	31,500.00
Addendum No. 4 - add new construction for 2003	30,000.00	15,750.00
Addendum No. 5 - amend land values @ \$4.50/parcel	78,822.00	78,822.00
Addendum No. 6 - review land value amendments and make changes	*	*
Addendum No. 7 - calculate the effective foot front	*	*
Totals	<u>\$512,844.27</u>	<u>\$ 470,094.27</u>

*No work was performed and no payments were made under these contract addendums.

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In April 2003, the Brown County Commissioners hired an independent audit firm to review the performance of the Reassessment Contractor, Johnson and Associates, based on concerns from the Department of Local Government Finance (DLGF) relating to the quality of the reassessment field work performed. The DLGF recommended that the County either complete the reassessment with Township and County staff, use another contractor to complete the reassessment or use the current reassessment contractor to complete the reassessment, but with appropriate supervision. The independent audit firm recommended that the County use the current contractor to complete the fieldwork and data entry portions of the reassessment with appropriate supervision. In addition, it was recommended the County hire another contractor (separate from the contractor completing the fieldwork) to develop the neighborhood factors and perform the assessment ratio studies required in this reassessment.

On December 10, 2003, the Brown County Trustees and the Brown County Commissioners entered into a contract with Nexus Group, Inc., to provide for the re-performance and completion of the 2002 General Reassessment in Brown County, Indiana. The contract amounts and subsequent payments are listed below:

Description of Contract with Nexus Group, Inc.	Contract Amount	Amount Paid
Original contract:		
2002 General reassessment	\$ 250,000	\$ 250,000
Creation of sales disclosure form database @ \$2.50/parcel	18,096	18,096
Digital photographs @ \$3.00/parcel	24,018	24,018
Ratio study	8,000	8,000
Additional service days	20,500	20,500
Totals	<u>\$ 320,614</u>	<u>\$ 320,614</u>

On various dates, as indicated, several additional contracts between the various Township Trustees and Nexus Group, Inc., were entered into as indicated below:

Description of Contracts with Nexus Group, Inc.	Contract Amount	Amount Paid
Contract No. 2, 04-07-04 - 2003 new construction - Washington Township	\$ 5,000	\$ 5,000
Contract No. 3, 04-07-04 - 2003 new construction - Jackson Township	4,200	4,200
Contract No. 4, 04-07-04 - 2004 new construction - Washington Township	5,000	5,000
Contract No. 5, 04-07-04 - 2004 new construction - Jackson Township	4,200	4,200
Contract No. 6, 02-11-05 - land valuation - all four townships	40,000	40,000
Contract No. 7, 02-11-05 - 2005 new construction - Hamblin Township	2,500	2,500
Contract No. 8, 02-11-05 - 2005 new construction - Washington Township	5,000	5,000
Contract No. 9, 02-11-05 - 2005 new construction - Jackson Township	4,200	4,200
Totals	<u>\$ 70,100</u>	<u>\$ 70,100</u>

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As of December 31, 2006, total payments made by Brown County to Nexus Group, Inc., on all contracts totaled \$390,714.

As of December 31, 2006, total payments made by Brown County to all reassessment contractors for the 2002 General Reassessment and various updates were \$860,808.27.

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EXIT CONFERENCE

The contents of this report were discussed on June 28, 2007, with Stephanie Yager, President of the Board of County Commissioners; and David Critser, President of the County Council.